

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-02 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-07
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /138 W
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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 5526

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E.O.11652:N/A

TAGS: ENRG, NZ

SUBJECT: THE CONTINUING SAGA OF HUNT PETROLEUM, THE GNZ,
AND THE SEARCH FOR OIL

REF: WELLINGTON 1049

1. AS INDICATED IN REFTEL, THE SEAHUNT GROUP (HUNT PETROLEUM OF DALLAS AND PHILLIPS OF BARTLESVILLE, OKLAHOMA) HAS HAD A COMMITMENT TO DRILL FIVE WELLS OFF NEW ZEALAND'S SOUTH ISLAND, AND HAS THREATENED TO ABANDON DRILLING ONCE THE FIFTH HOLE HAS BEEN PLUGGED. LIKE THE FOUR BEFORE IT, THAT FIFTH HOLE WAS RECENTLY FOUND TO BE DRY, AND HUNT HAS DECIDED NOT TO PRESS FURTHER FOR THE TIME BEING.

2. THE DECISION IS BASED ON A CONTINUING DISPUTE WITH THE GOVERNMENT OF NEW ZEALAND OVER THE TERMS OF TAXATION OF ANY STRIKE WHICH MAY EVENTUALLY BE MADE WITHIN THE GREAT SOUTH BASIN, THE HUGE AREA BORDERED ROUGHLY BY THE SOUTH OF THE SOUTH ISLAND, AND THE AUCKLAND, CAMPBELL, ANTIPODES AND BOUNTY ISLANDS. SEAHUNT HOLDS LICENSES TO EXPLORE WITHIN THIS AREA WHICH EXPIRE SEPTEMBER 30, 1979.

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3. UNDAUNTED BY SEAHUNT'S DECISION TO SUSPEND FURTHER DRILLING, THE GOVERNMENT HAS DECIDED TO PROCEED ON ITS OWN THROUGH PETROCORP EXPLORATION, A WHOLLY-OWNED GNZ CORPORATION. PETROCORP WILL LEASE SEAHUNT'S PENROD 74 DRILLING RIG AND HAS BUDGETED NZ DOLLARS 15 MILLION TO DRILL TWO WELLS, ONE 70 KILOMETERS EAST OF STEWART ISLAND,

THE OTHER 20 KILOMETERS OFFSHORE OF DUNEDIN. (THE FIVE WELLS DRILLED TO DATE HAVE COST NZ DOLLARS 57 MILLION, OF WHICH SEAHUNT PAID 60 PERCENT AND THE GOVERNMENT 40 PERCENT.) IF EITHER OR BOTH WELLS PROVE PRODUCTIVE, THE GNZ WILL RECOUP SIX TIMES ITS INVESTMENT COST FROM THE INITIAL REVENUES, AND, ASSUMING SEAHUNT THEN REJOINS THE EFFORT, WOULD SHARE SUBSEQUENT REVENUES ON A 51/49 BASIS, THE GNZ TAKING THE LARGER SHARE.

4. THE LOCAL PRESS EARLIER IN THE WEEK QUOTED A HUNT OFFICIAL IN DALLAS AS HAVING SAID THAT THE GNZ HAD "HARRASSED" HUNT OVER THE TAX ISSUE INTO WITHDRAWING FROM THE SEARCH. HUNT'S LOCAL MANAGER MOVED QUICKLY TO CALM THE WATERS, AFFIRMING HUNT'S INTEREST IN REMAINING ACTIVE IN NEW ZEALAND AND IN CONTINUING NEGOTIATIONS OVER THE TAX FORMULA.

5. EMBASSY COMMENT: THE GOVERNMENT'S DECISION TO PROCEED SOLO IS BASED ON THE SOLE RISK PROVISION OF ITS CONTRACT WITH SEAHUNT WHEREBY EITHER PARTNER CAN PROCEED ALONE IN THE EVENT OF DISAGREEMENT BETWEEN THE CONTRACTING PARTIES. THIS DECISION DOES NOT ELIMINATE HUNT AND PHILLIPS FROM THE EQUATION. SEAHUNT WILL ABSENT ITSELF FROM THE DRILLING, BUT NOT FROM THE BARGAINING TABLE. SELDEN

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